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CENTRAL INTELLIGENCE AGENCY
OFFICE OF NATIONAL ESTIMATES

25 July 1952

MEMORANDUM FOR THE DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT : SE-27, "Probable Effects of Various Possible Courses of Action with Respect to Communist China"

REFERENCE: a. Procedure for Reducing Intelligence Deficiencies in NIE's, dated 3 June 1952.

ENCLOSURE: a. Statement of Intelligence Deficiencies Revealed in SE-27

1. The intelligence gaps revealed in the preparation of SE-27 had been identified earlier by reason of the prior production of estimates covering much the same ground (NIE-32 and SE-20).

2. Despite this, the IAC representatives were convened, on 15 July, and agreed that it was useful to review again these deficiencies and to initiate further steps to correct them.

3. The findings of the IAC representatives are forwarded as Enclosure a.

4. Recommendations. Based on their findings, the IAC representatives make the following recommendations:

- a. That the IAC agencies undertake, as a matter of high priority, a coordinated program for the improvement of the collection, collation, and research effort on the economy of Communist China.

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- b. That the Assistant Director for Intelligence Coordination, CIA, explore with the Economic Intelligence Committee and interested agencies the possibility of improving the collection, collation, and research effort with specific

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STATEMENT OF INTELLIGENCE DEFICIENCIES REVEALED IN SE-27:

"PROBABLE EFFECTS OF VARIOUS POSSIBLE COURSES OF
ACTION WITH RESPECT TO COMMUNIST CHINA"

1. The first and most basic deficiency is in general coverage of Communist China, particularly on economic matters. US policy with respect to Communist China must lean heavily on analyses of many aspects of the economic situation within that country. Such problems as the extent to which Western trade controls have weakened the Chinese Communist economy and the degree to which additional controls could be expected to weaken it further, the economic ability of Communist China to carry on the war in Korea and to support additional large-scale military operations, the degree to which Communist China can compensate the USSR for Soviet military and economic assistance, the development of the Chinese Communist war potential, and the inflationary pressures existing in Communist China, are key questions in the preparations of National Estimates and the formulation of national policy with respect to Communist China. SE-27 as well as predecessor estimates was hampered by the difficulties in determining the extent and manner in which economic factors affected the intentions and capabilities of the Peiping regime. The absence of such treatment reflected gaps in both collection and research efforts, thus:

a. Collection. There is a serious lack of reliable economic information on Communist China. The following points are pertinent:

- (1) Even when the mainland was under the Nationalists and the US had considerable freedom to obtain information, economic information was generally inadequate and/or unreliable.
- (2) The data and qualitative information that were available with respect to the economy of the Chinese mainland at the time the Nationalists evacuated has been getting rapidly out of date. US officials were recalled in December 1950 and business

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representatives progressively withdrew after that date. Information now available is limited to occasional [redacted]

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[redacted]
Communist periodicals, Communist propaganda, and speeches made by Communist officials.

- (3) As in the case of all Communist states, much information on the Chinese economy is regarded as a state secret and is strictly guarded.

b. Collation. There is need for coordinating, translating, indexing, and distributing the material already available on Communist China. In particular, it is important to coordinate the various efforts to obtain and exploit material on the economy of China (such as the Air Forces Research Project at Stanford, the State Department's collection and translation projects at Hong Kong and Taipei, and CIA's Foreign Document [redacted] Divisions). Because of the dearth of translations, it is particularly important to minimize duplication in this field.

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c. Research. The economic research facilities allocated to Communist China in the Washington intelligence community have been inadequate. Although there are a sufficient number of specialists (e.g., mining, transportation, agricultural specialists) who could be transferred from present areas of responsibility to work on Communist China, there are few analysts with good general economic background and an area knowledge of China. Thus, economic research facilities are inadequate to make full use of even the limited amount of economic information readily available on Communist China. OIR, which is the principal contributor to National Estimates dealing with the economy of Communist China, has only [redacted] engaged in this activity. Moreover, with increased emphasis on research and analysis of the Chinese Communist economy, more information, direct or derived, would be made available. (In the roughly analogous situation with respect to the Soviet economy, considerable progress has been made in exploiting through intensive analytical techniques the limited information available.)

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- (1) Specifically, a recent survey conducted by the Economic Intelligence Committee reveals that only the equivalent of approximately [] professional analysts* in the US Government (including approximately [] in non-IAC agencies) are engaged in work which can possibly contribute to the production of National Estimates dealing with the economy of Communist China. Of these [] analysts, there are the equivalent of only [] engaged in the preparation of analyses on the Chinese Communist economy as a whole; the remainder are employed on the research of specific segments of the economy, e.g., international trade and finance, transportation, materials, and industry. Since National Estimates are largely devoted to the examination of broad problems, it is apparent that the paucity of analysts who have integrated approach to the economy of China as a whole has directly and seriously affected the quality of intelligence estimates dealing with this aspect of Communist China. It should be further noted that even those analysts whose work is such as to bear on the production of National Estimates probably devote a large proportion of their time to purely departmental problems.

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- (2) There are the equivalent of approximately [] analysts engaged in economic research which contributes only indirectly or remotely to the National Estimates ([] analysts in the NIS program and []). There is attached as Tab "A" a table summarizing the EIC findings.

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* In view of the fact that there are professional analysts in the Government who spend only a fractional part of their time in research on specialized aspects of the Chinese Communist economy, the number of professionals working on this area have been expressed in one-man-full-time equivalents.

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2. In addition, two specific gaps in intelligence were evident in the preparation of this estimate as well as in the preparation of such other estimates as SE-20 and NIE-32:

- a. Intelligence on seaborne exports from the Communist bloc to Communist China is inadequate. Without such data it is difficult, if not impossible, to arrive at a reliable estimate of the effect of a Western-imposed naval blockade on Communist China.
- b. There continues to be a serious gap in information with respect to the capacity and traffic of the Trans-Siberian Railroad as well as with respect to the competing requirements for transportation over this route. Obviously the lack of such intelligence presents a formidable obstacle not only with respect to the preparation of estimates that are primarily economic in nature, but also with respect to those dealing with Chinese Communist and Soviet military capabilities in the Far East. Current estimates on the capacity of the railroad are admittedly probably subject to a 50 percent error in either direction. It has been suggested that additional information on the Trans-Siberian Railroad may be obtainable

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The IAC representatives suggest that these sources be explored as a specific collection possibility. The representatives believe that it may be possible to obtain a more expert appraisal of existing evidence than has yet been furnished.

- c. Additional analysis is necessary in the capacity and traffic of alternate overland routes from the Soviet Far East to Manchuria.

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